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SUBJECT: ENERGY NEEDS MOVE CHILE TO CONSIDER BIOFUELS,  
INCREASED FOREIGN INVESTMENT, AND NUCLEAR OPTIONS

¶1. (U) Summary. Chile has felt its energy dependency more strongly this year than usual. From spiking world oil prices to the occasional cutoff of gas from Argentina, there has been nothing but bad news on energy. As part of an effort to diversify energy sources and to boost foreign direct investment, the GOC has begun to look to bio-energy options and to bundling energy projects for investors. Additionally, although Bachelet has yet to respond concretely, the topic of nuclear energy has recently come to the political forefront. End summary.

¶2. (U) The difficulty in securing gas supplies under existing contracts from Argentina has underscored for the Chilean government public the level of the country's energy dependency. The Argentinean gas issue coupled with spiking world oil prices have left Chileans feeling more vulnerable on the energy front than ever before. The vulnerability is not just an extra cold night for the average Chilean but rather a vulnerability that sits in the heart of Chile's economy. For example, according to Minister of Mines and Energy Poniachik, only eight percent of the gas that Chile imports from Argentina is used in Chilean households. The vast bulk of natural gas use in Chile is in the manufacturing sector. The cutoff and prices changes unilaterally initiated by Argentina have had their largest impact on Chilean industrial production. Industry responds with diesel and coal use but costs are higher and the environmental impact much greater.

#### Agro-energy and Biocombustibles

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¶3. (U) To put her own stamp on the GOC's energy policy, President Bachelet headlined a two-day seminar in July on potential new energy sources such as agroenergy and biocombustibles. Chilean Ministers of Agriculture Rojas and of Energy Poniachik were joined by the Brazilian and Argentinean Ministers of Agriculture to discuss how Chile's flourishing agriculture sector could support energy diversification, environmental protection and the development of new technologies.

¶4. (U) At the seminar, the GOC announced the creation of an inter-ministerial committee to develop a policy framework for natural energy sources. To date, this committee has met but its planning is very much in the early stages. One immediate function of the committee has been to identify GOC land appropriate for biofuel development. However, no legal mechanism exists in Chile to have the land administered by

the private sector while still remaining in GOC hands. The GOC will have to overcome some of its own internal bureaucracy before it can encourage biofuels as a viable energy alternative.

#### Investment Road Show

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15. (U) The Ministry of Mining and Energy in conjunction with the Committee of Foreign Investment, the Association of Electric Companies and the National Energy Commission, will be taking Chile's quest for energy investment on the road. The GOC is organizing seminars in London and New York in September to attract potential investors to the electric energy sector. The GOC realizes that the country is a relatively small market when it comes to investment in the energy sector. It is attempting to bundle planned projects in such a way as to raise Chile's profile among investors.

16. (SBU) Comment: At least when it comes to developing its energy sector, Chile has begun to move away from the one-note song that the country's economic and political stability is sufficient to attract FDI. The GOC has acknowledged that it must come up with creative ways to attract foreign investors to its energy sector. Also, Chile has no doubt watched with envy as Brazil has moved decisively in recent years to true energy independence through biofuels.

#### Nuclear Energy

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17. (U) In line with moves on the part of Brazil and Argentina for increased use of nuclear energy, for the first time under the Bachelet administration, the topic has come to the political forefront in Chile. On August 21, during the weekly meeting between the four presidents of the governing coalition and the five Ministers of the Interior, Presidency, Government, Housing, and Justice Departments, the coalition partners expressed their doubts regarding the viability of the Administrations current energy plan and proposed the initiation of technical studies to look at the possibility of nuclear energy. Additional supporters of the idea include ex-presidents Ricardo Lagos and Eduardo Frei, the later of whom spoke directly with Bachelet in support of publicly opening the nuclear discussion.

18. (U) Bachelet has yet to state a position and signals from her Government have been mixed. During her campaign, Bachelet signed an accord with environmental activists agreeing not to include the nuclear energy in her national energy policy in exchange for their support. However, she recently signed a bilateral agreement with Brazil for cooperation in peaceful nuclear energy. Additionally, although Minister of Mining and Energy Poniachik stated last Friday the Government would not promote nuclear energy, there has been no direct indication from Bachelet to support this claim.

19. (U) In all events, a nuclear power plan would take approximately ten years to develop, three for preliminary technical studies costing two-three million dollars and seven for construction. Technically, Bachelet could then say that she had kept her campaign promise. The only certainty is that, should Chile decide to construct a nuclear power plant, it would be located in Taltal in the northern Antofagasta region.

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